



Challenging Year Ahead From Snowball Effect

As expected, F&B sector immediately felt impact from expat outflow (see “Impact Analysis: Expatriate Fees and Consumption,” 26-Feb-2017) however the snowball effect has yet to play out. Notably we see closures across restaurants to accelerate (shrinking workforce) and regulatory changes (Saudization, electronic payments). This, in our view, is not fully priced by the market as focus firmly remains on upcoming index implementation where Almarai stands to benefit. Shares have gained +12.5% YTD and we expect momentum to sustain until fundamentals resurface. Reiterate Buy and SAR 61 target price, representing 18.4x 2020E EV/EBITDA.

Dairy & Juice contract -6% Y/Y

Revenues for the quarter declined -0.9% Y/Y to SAR 3,389 mln, slightly below our SAR 3,410 mln forecast and -1.5% Y/Y for F2018 to SAR 13.7 bln. Dairy and Juice segment contracted nearly -6% Y/Y on expat outflow and potential impact from price increase. Management indicates stabilization in fresh milk market share since the initial impact in 3Q18 (260 bps loss). Meanwhile laban and zabadi continued to be affected, shedding 610 bps and 400 bps, respectively. Compounding the pressure has been shrinking market size. Conversely, bakery showed turnaround growing +1.7% Y/Y. Poultry (135m birds) maintained double-digit clip at +26% Y/Y with management guiding towards further growth in 2019 targeting 180m birds. Overall for 2019, management remains cautious however early signs are encouraging.

Gross margin compressed on promotions

Gross margin compressed c. 260 bps primarily due to promotions on bakery (new product launches) and long life dairy (surplus milk). Almarai gained market share in LLD likely at the expense of SADAFCO. Management feels that milk glut situation seen in 2018 is easing (c. 50% absorbed) which should limit promotions and discounts in 2019. Interestingly, other dairy producers have not increased prices following Almarai's lead which suggests positive volume impact (NADEC likely beneficiary). Alfalfa is 100% imported as of Nov-2018 where the cost differential is substantial (domestic production \$200/t vs. import at \$320/t net of subsidy). Consequently, government grants will rise (offsetting COGS) however the prospect of subsidy phase-out remains on the horizon. We estimate c. 100 bps gross margin impact with subsidy and 300 bps if grants discontinue.

One-offs drag earnings lower

Even after adjusting for SAR 127 mln one-off impairments, operating income fell 2.5% short of our estimate. The impairments consisted of discontinued KSA arable ops and associated loss (SAR 77 mln) plus GCC (SAR 27 mln) and Jordan (SAR 23 mln). Jordan ops are under review however further charges are not expected. Adjusted net income of SAR 497 mln (-3.2% Y/Y) missed our SAR 531 mln estimate and consensus SAR 576 mln.

SAR mln	4Q18	4Q18E	4Q17	Y/Y Chg	3Q18	Q/Q Chg	Consensus	% Variance
Sales	3,389	3,410	3,418	-0.9%	3,371	0.5%	3,405	-0.6%
Dairy & juice	2,381	2,480	2,525	-5.7%	2,431	-2.0%		-4.0%
Bakery	475	454	467	1.7%	435	9.2%		4.5%
Poultry	494	443	392	26.1%	457	8.2%		11.6%
Others	38	33	35	10.7%	49	-21.3%		15.3%
Gross profit	1,235	1,287	1,335	-7.5%	1,452	-15.0%		-4.1%
Gross margin	36.4%	37.7%	39.1%		43.1%			
EBITDA	798	1,074	933	-14.5%	1,084	-26.4%	1,215	-25.7%
EBITDA margin	23.5%	31.5%	27.3%		32.1%		35.7%	
Operating income	466	608	599	-22.2%	755	-38.3%	719	-23.4%
Operating margin	13.7%	17.8%	17.5%		22.4%		21.1%	
Net income	370	531	513	-27.9%	635	-41.7%	576	-30.4%
Net margin	10.9%	15.6%	15.0%		18.8%		16.9%	
EPS (SAR)	0.37	0.53	0.51	-27.9%	0.63	-41.7%	0.58	

SAR 61

Buy

12-Month Target price

Recommendation

Stock Details

Last Close Price	SAR	54.00
Upside to target	%	13.0
Market Capitalization	SAR mln	54,000
Shares Outstanding	mln	1,000
52-Week High	SAR	62.80
52-Week Low	SAR	40.80
Price Change (YTD)	%	12.5
3-Mth ADTV	thd	307
EBITDA 2019E	SAR mln	3,982
Reuters / Bloomberg	2280.SE	ALMARAI AB

SAR mln	2018	2019E	2020E
Revenues	13,723	13,700	13,768
Gross Margin	40%	40%	39%
EBIT	2,461	2,552	2,546
Operating Margin	17.9%	18.6%	18.5%
Net Income	2,007	2,099	2,106
Net Margin	14.6%	15.3%	15.3%
EPS (SAR)	2.01	2.10	2.11
DPS (SAR)	0.85	1.00	1.00

Price Multiples

	2018	2019E	2020E
P / E	26.9x	25.7x	25.6x
EV / EBITDA	17.2x	16.7x	16.6x
P / S	3.9x	3.9x	3.9x
P / B	3.9x	3.7x	3.4x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

Asim Bukhtiar, CFA

abukhtiar@fransicapital.com.sa

+966 11 282 6844

Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

Saudi Fransi Capital

Call Center | 800 125 9999

www.sfc.sa

Commercial Registration | 1010231217

Research and Advisory

P.O. Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

research&advisory@fransicapital.com.sa

Disclaimer

This report is prepared by Saudi Fransi Capital ("SFC"), a fully-fledged investment firm licensed by the Capital Market Authority (CMA) to provide investment banking, asset management, securities brokerage, research, and custody services. SFC, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. SFC strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this report take into account both risk and expected return.

To the maximum extent permitted by applicable law and regulation, SFC shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute SFC's judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of SFC. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Saudi Fransi Capital (Closed Joint Stock Company owned by Banque Saudi Fransi)

C.R. 1010231217

Paid Up Capital 500,000,000 SR – Capital Market Authority 11153-37

Head Office

8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address:

P.O Box 23454

Riyadh 11426

Tel: +966 11 282 6666 | Fax: +966 11 282 6667

800 124 3232 | www.sfc.sa